OAH Docket No. 58-2500-14924-2
PUC Docket No. E-132,299/SA-02-496

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Petition by the City of Rochester for Approval of an Adjustment of Its Service Boundaries With People's Cooperative Services, Inc. (Celestica Property)	**FINDINGS OF FACT, CONCLUSIONS, AND RECOMMENDATION**

The above-entitled matter came on for hearing by Administrative Law Judge Kathleen D. Sheehy on January 14, 2003, in the Small Hearing Room of the Minnesota Public Utilities Commission, 350 Metro Square Building, 121 Seventh Place East, St. Paul, Minnesota. The record closed on March 5, 2003, upon receipt of post-hearing briefs.

James R. Carlson, Esq., and Raymond L. Hansen, Esq., O'Brien & Wolf, LLP, 206 South Broadway, Suite 611, First Federal Building, P.O. Box 968, Rochester, MN 55903-0968, appeared for the City of Rochester (the City).

Kenneth R. Moen, Esq., Moen Law Firm, 202 Riverside Building, 400 South Broadway, Rochester, MN 55904, appeared for People's Cooperative Services, Inc. (People's).

W. Stuart Mitchell appeared for the staff of the Minnesota Public Utilities Commission (the Commission).

NOTICE

Notice is hereby given that pursuant to Minn. Stat. § 14.61, and the Rules of Practice of the Public Utilities Commission and the Office of Administrative Hearings, exceptions to this report, if any, by any party adversely affected must be filed within twenty (20) days of the mailing date hereof or such other date as established by the Commission's Executive Secretary or as agreed to by the Parties with the Commission's Executive Secretary.

Questions regarding filing of exceptions should be directed to Dr. Burl Haar, Executive Secretary, Minnesota Public Utilities Commission, Suite 350 Metro Square, 121 Seventh Place East, St. Paul, Minnesota 55101. Exceptions must be specific and stated and numbered separately. Oral argument before a majority of the Commission will be permitted to all parties adversely affected by the Administrative Law Judge's recommendation who request such argument. Such request must accompany the filed exceptions or reply, and an original and 14 copies of each document should be filed with the Commission.

The Minnesota Public Utilities Commission will make the final determination of the matter after the expiration of the period for filing exceptions as set forth above, or after oral argument, if such is requested and had in the matter.

Further notice is hereby given that the Commission may, at its own discretion, accept or reject the Administrative Law Judge's recommendation and that said recommendation has no legal effect unless expressly adopted by the Commission as its final order.

STATEMENT OF ISSUE

The issue in this case is what compensation for loss of revenue is due to People's for the City's acquisition of that portion of People's service territory known as the Celestica Property.

The Administrative Law Judge concludes that the City must pay People's 13.2 mills per kWh, plus an annual adjustment to the mill rate for inflation, for actual consumption at the Celestica location for a period of ten years, beginning August 18, 2000.

Based upon all the proceedings herein, the Administrative Law Judge makes the following:

FINDINGS OF FACT

Statutory and Procedural Background

1. The City owns a municipal electric system that is operated by Rochester Public Utilities (RPU). RPU's system consists of generating, transmission, and distribution facilities. It provides electric service to the residents of the City of Rochester.

2. People's is a nonprofit rural electric cooperative. In 2000, People's provided electric service to approximately 13,735 customers in Olmsted, Dodge, Mower, Fillmore, Winona, and Wabasha counties in southeastern Minnesota.

3. The Public Utilities Act, Minn. Stat. § 216B.40, provides that utilities have exclusive rights to provide electric service to customers in their assigned service areas. Municipal utilities may acquire portions of other utilities' service areas upon municipal annexation of those areas.[1] The present service territory boundary between the City and People's was established by the Commission in 1975 and has been modified from time to time since then as the City has annexed various portions of People's service territory.

4. On March 21, 2000, the City annexed several areas lying within People's service territory, including the Celestica Property. At the time of the hearing, Celestica was the only potential customer on the property, but it was a significantly large electric customer that specialized in electronic card assembly and testing.[2] It consumed approximately four times more electricity than People's largest existing customer. This business was part of IBM's facilities in RPU's service territory before being purchased by Celestica in March 2000. Celestica developed property within People's service territory and moved the business to its new location in 2000.

5. The parties agreed on or about August 18, 2000, that RPU should provide electric service to Celestica, even though it is located within People's service territory, in anticipation of the transfer of permanent service territory rights to RPU.[3]

6. The City and People's have reached agreement on compensation at a rate of 8.5 mills/kWh for all parcels annexed in 2000, except for the Celestica Property.[4]

7. On April 8, 2002, the City filed with the Commission a Petition for Adjustment of Its Service Area Boundaries with People's Cooperative Services, Inc. The petition requested that the Commission determine fair compensation for the transfer of the Celestica Property from People's service territory to the City. The Commission ordered a contested case proceeding on May 28, 2002.

8. In a prehearing order dated June 18, 2002, the hearing originally was scheduled to take place on November 6-7, 2002. At the request of the parties, the hearing was continued to January 14, 2002.

Loss of Revenue Calculations

9. Minn. Stat. § 216B.44 provides that the following factors must be considered in establishing compensation for electric service territory rights: (1) original cost of acquired facilities, less depreciation; (2) loss of revenue to the utility formerly serving the area; (3) expenses resulting from integration of facilities; and (4) other appropriate factors. The parties agree that the City owes no compensation to People's for the acquisition of facilities, integration expense, or other factors. The only issue in this case is the calculation of People's loss of revenue.

10. The parties also agree that People's compensation should be expressed as a mill rate, to be multiplied by Celestica's actual electrical energy usage expressed in kWh, to determine compensation per kWh. Use of a mill rate allows the parties to avoid uncertainties associated with projections of future consumption.[5] RPU will make a lump sum payment for the period of August 18, 2000 through the resolution of this case, and monthly payments thereafter until August 18, 2010, based on the actual electrical energy usage by the Celestica Property.[6]

11. During the hearing both parties submitted loss of revenue calculations based on a test year of RPU's actual retail sales to Celestica for the period July 2001 through June 2002.[7] The parties used a formula for calculating lost revenue called the "direct net revenue loss method," which was approved by the Commission in a previous case.[8] This method requires the estimation of lost gross revenues, from which are subtracted the operating expenses that People's has avoided by not having to serve the customer, to obtain an annual net loss of revenue figure. When this figure is divided by the estimated annual consumption in kWh, the result is the estimated net loss of revenue per kWh.

12. Using the same basic formula, but with very different inputs, the parties have calculated widely disparate results as compensation due for annexation of the Celestica Property. The City maintains that People's is entitled to compensation at a rate of 5.5 mills per kWh; People's maintains that the City must pay 25 mills per kWh. A summary of their loss of revenue calculations is attached hereto as Table 1.

Calculation of Gross Revenues

13. The biggest issue in this proceeding in terms of impact on the mill rate is the first step in the formula, the calculation of gross revenues. The parties agree on the billing determinants based on Celestica's usage (a facility, demand, and energy charge). People's contends that this usage should be multiplied by People's only applicable published rate, which is its Schedule C rate for Three Phase Service with Demand: $35.00 facility charge, $6.50 per kW demand charge, and 5.0 cents per kWh for energy charge. Use of the Schedule C rate produces gross revenues of $1,042,965.[9]

14. The City maintains that use of the Schedule C rate is not appropriate for a number of reasons. First, it contends that the Schedule C rate is not sufficiently cost-based. A rate study performed by Power Systems Engineering in October 2002 found that People's Schedule C rates are 15.2% higher than the cost of service. If the Celestica property had been included in the rate study, the City estimates that the Schedule C rates would have been 17.5% higher than the cost of service. Consequently, the City maintains it is appropriate to reduce the gross revenue figure by 17.5% ($173,227) in order to reflect cost-of-service principles. This reduction would bring the gross revenue number to $869,795.

15. As an alternative to making these two reductions, the City proposes using a cost-of-service rate that was developed in the 2002 rate study, but not implemented by People's. This rate included use of the RPU loss of revenue payments for other service territory acquisitions as other operating revenues. Use of this rate would produce a gross revenue number of $810,823.[10]

16. The City maintains that the use of the cost-of-service rate that People's developed, but did not implement, is supported by Commission precedent. The Commission used an approach to estimating net loss of revenue in one case[11]called an "expense residual method," in which the cooperative's system-wide expenses were

multiplied by a factor (a demand allocator) to arrive at an “expense residual” for the test year. Patronage capital and operating margin were included in the allowable expenses. The expense residual number was then inflated over ten years and reduced to present value to produce a lump sum payment owed to the cooperative. This method accordingly estimates lost revenue by starting with residual expenses, determined on a cost of service basis, and explicitly adding a margin calculated using the same demand allocator. Because of the explicit addition of a margin, this method requires that expenses be based on cost.

17. In contrast, the “direct net revenue” method used in some other cases, as well as this one, begins with the application of the cooperative’s current rates (which include some undetermined amount of margin) to the test year billing determinants of customers in the proposed acquisition area. This is intended to produce an “incremental” annual gross revenue loss, from which is subtracted the “incremental” reduction in operating expense. In past cases in which a lump sum payment has been awarded, this net incremental revenue loss was inflated over ten years and then reduced to present value.[12]

18. The Commission’s focus on cost of service in the *Olivia* case was due to the method used to estimate lost revenue. It does not mean that other methods, such as the direct net revenue method, are not appropriate. In the absence of any statutory language as to how lost revenues are to be calculated, it is appropriate to evaluate the parties’ proposed methodologies on a case-specific basis.[13]

19. The problem in this case is in determining what is truly the “incremental” loss of gross revenue from Celestica. Although People’s may legitimately use Rate C revenues to subsidize other classes of customers, the City contends that it is unfair to require RPU and its customers to pay compensation in a service territory transfer proceeding based on a rate that is well above the cost of service.[14]

20. There is no legal requirement that People’s must set its rates at cost of service, nor does the direct net revenue method used in the past require that rates be set on a cost-of-service basis. In some circumstances, it might be appropriate to permit a rural cooperative to recover from an acquiring utility a disproportionate amount of margin from one customer for the purpose of preventing a rate increase to the remaining customers. This is the whole point of loss of revenue payments.[15]

21. Furthermore, the City’s approach is impractical in that it could require that a cost of service study be done frequently, or potentially whenever the City seeks to annex an area, with the concomitant probability of more disputes arising over how the study is performed and to what extent rates should be unbundled. It would not promote certainty or predictability to conclude that a cost of service rate should always be used. People’s did perform a cost of service study in 2002, but before this had not done such a study since 1989.[16]

22. Next, the City contends that the revenue figure should be reduced an additional 4.13% ($35,938) to directly account for the loss of revenue payments made by the City to People's as compensation for other annexations. When these reductions are made, the City contends that the proper gross revenue number is $833,857.

23. For example, in 2001 People's received from RPU $668,269 in loss of revenue payments related to other service territory annexations.[17] Instead of accounting for these payments as "other operating revenue" in the Statement of Operations used to develop its 2002 rates, as it has done in setting its budgets, People's applied the payments to reduce debt principal or to fund investments in the distribution system in lieu of borrowing funds. This has the effect of reducing rates only in an amount needed to pay interest expense and coverage associated with debt, rather than directly boosting total revenues.[18]

24. The City maintains that People's approach may be appropriate for the purpose of setting rates, but it is unfair to minimize the effect of RPU's past payments in this manner when it comes to setting compensation in a service territory acquisition case. People's contends that there is nothing unfair about this application of RPU's payments. It maintains that its lenders require that such cash payments be used for construction, thereby offsetting future loan funds and reducing future interest expense. Used in this manner, the compensation payments received by People's are used to reduce revenue requirements over the long term, which better reflects the long-term nature of the loss than does the City's "one-time discount approach."[19]

25. It is not appropriate to require People's to account for RPU loss of revenue payments in the manner advocated by the City. People's is accounting for those payments in an appropriate manner that reflects the long-term nature of the loss.

26. Finally, the City maintains that use of the Schedule C rate is inappropriate because a large customer like Celestica, which has a load of approximately 3,000 kVa per year,[20] would never pay the Schedule C rate. People's rate Schedule C (Three Phase Service with Demand), which states that it is available to consumers who require 70 kVa or more of transformer capacity, also provides that rates for loads "in excess of 300 kVa capacity may be negotiated on an individual basis."[21] People's has no customers the size of Celestica, or anywhere near it, and People's maintains it is speculative to suggest that Celestica would pay less than the Schedule C rate. People's has some customers with loads in excess of 300 kVa; all of them pay the standard Schedule C rate.[22]

27. According to Celestica's facilities manager, electric power is a large component of its cost and the company would attempt to negotiate a reduction from the Schedule C rate. If not successful, Celestica would consider generating its own electricity.[23]

28. People's had a Schedule M rate for Commercial, Industrial, and Economic Development; it was closed and consolidated with Schedule C in June 2001. It has a

Schedule N rate for large commercial, industrial, and economic development purposes that was available to consumers who require 500 kVa or more of effective transformer capacity. This rate was closed to new consumers in February 1997. Use of the Schedule N rate in this case would produce gross revenues of approximately $790,428.[24]

29. In addition, the City maintains that People's historically has been willing to negotiate rates for large customers. From 1980 to 1995, People's provided service to the Rochester Airport under a negotiated rate that, at least for one year, was 18.2% lower than the published Schedule C rate. The airport's peak demand was 530 kW, whereas Celestica's peak demand is 2,640 kW, almost five times larger. People's responds that this was an economic development rate passed through from Dairyland at a time when there was excess generating capacity.[25]

30. There is more recent evidence that average revenues are significantly lower for large industrial customers than for residential or commercial customers, as summarized in the following chart:

Average Revenue per kilowatt-hour in 2000
(cents per kWh)[26]

Entity	*Residential Sector*	*Commercial Sector*	*Industrial Sector*
People's	7.15	6.86	n/a
RPU	8.18	6.43	5.27
State of MN	7.52	6.36	4.57

31. Based on this evidence, it is not speculative to conclude that, given the size of this customer and the negotiating leverage available, Celestica would in fact pay less than the Schedule C rate if People's were the provider of its electrical service. It is more likely than not that Celestica would be able to negotiate a rate under Schedule C that more closely approaches the cost of service. Furthermore, it is more likely than not that a negotiated rate would produce revenues higher than those the City has received from Celestica ($847,000), because the City provides service to an urban area and has economies of scale that are not available to a rural provider of electrical service.

32. Although there is no clear-cut answer as to what rate Celestica would be able to negotiate, the most reasonable gross revenue figure supported by the record in this case is the Schedule C rate developed by People's minus 15.2%, or $884,434. This corresponds to the amount by which the Schedule C rates would have to be reduced to contribute revenue on a cost of service basis, without any additional reduction as advocated by the City. In the unique circumstances of this case, this amount most closely approximates the rate that Celestica could negotiate if People's provided its electrical service. Use of the Schedule C rate without such an adjustment would not be just or reasonable.

Calculation of Reduced Operating Expense

33. The categories of avoided operating expense are: purchased power expense, distribution operation and maintenance expense, customer accounting expense, customer service expense, administrative and general expense, depreciation expense, property tax expense, and interest expense.

34. *Purchased Power Expense.* The City maintains that avoided purchase power expense is $676,524; Peoples maintains the appropriate number is $663,142. The main difference between the two figures is that the City assumes average system losses of 6.31% of sales, whereas People's assumed system losses of 4.01% based on the losses specific to the circuit that would supply Celestica (Kalmar). The City maintains that use of the system-wide average is appropriate due to the complexity of determining which circuit would serve Celestica if People's were in fact serving all the load acquired by RPU over the past ten years. People's maintains that it is an easy matter to determine which circuit in place now would serve Celestica and that losses specific to this circuit are more accurate than use of a system-wide average.

35. It is reasonable to estimate system losses at 4.01% as done by People's, in lieu of using a system-wide average. The appropriate number for purchased power expense is $663,142.

36. *Distribution Operation and Maintenance Expense.* The City calculates $3,233 in avoided distribution O & M expense; People's calculates $1,563. The City developed an average cost incurred by People's to maintain and operate each mile of overhead line, and an average length of overhead line (3.55 miles), which results in an average yearly cost of $1,670 plus underground line ($121), transformers ($398) and meters ($1,045). People's calculates the same numbers for underground line, transformers, and meters, but maintains that no overhead line would be required to serve Celestica.

37. It is reasonable to estimate distribution operation and maintenance expense of $1,563, as done by People's, in lieu of using an average expense for overhead line that would not be necessary to serve Celestica.

38. *Customer Accounting.* The parties agree that $600 is reasonable figure for avoided customer accounting expense.

39. *Customer Service*. The City maintains that a customer the size of Celestica requires significant customer service and has estimated $3,500 in avoided expense, based on 75 hours at $45 per hour and $125 for vehicle, computer, and office costs. People's maintains that no customer service expense would be avoided because it could serve Celestica with its existing staff.

40. The City has actual experience in providing customer service to Celestica. Celestica has required significant customer service concerning billing issues, air

conditioning issues, and energy savings. It is reasonable to estimate the value of avoided customer service expense to a large client like Celestica at $3,500.

41. *Administration and General.* The parties agree that $24 is the appropriate figure for avoided administration and general expense.

42. *Depreciation, Property Tax, and Interest.* This is the next most significant area of controversy between the parties. In previous cases the parties have agreed to use an incremental approach in estimating avoided capital expenses, including the cost of connecting the customer to People's existing electric system and the cost to upgrade People's existing distribution and substation facilities in order to serve Celestica. The City now contends that this approach understates the avoided expenses in these areas, and it has estimated avoided expenses by calculating People's average cost per kVa of energy based on People's facilities in place in the Rochester area. Based on an average cost per kVa, the City estimates avoided depreciation expense at $12,740, interest expense at $21,779, and property tax expense at $7,762.

43. People's contends that direct net loss of revenue method is inherently incremental. It further contends that this approach has been used in the past to resolve many cases, and that it should be used here.

44. There is nothing intrinsically wrong with the approach advocated by the City; it is a fair method of estimating People's average costs in these areas. The issue really is whether an average cost is more accurate than the direct approach used in the past. The City's method may be more accurate when the annexed property involves a large number of customers scattered around the system, but it is hard to say this approach is more accurate in this case, in which it is a relatively easy matter to determine what facilities would be required to provide service to a single customer. Although the incremental method may understate avoided capital expenses in the scenario here, where over the past ten years the City has consistently acquired service territory rights for what is now a total load of 28,000 kVa per year, the City's approach clearly overstates People's need to build new facilities in lieu of using existing facilities to provide service to any one customer.[27] The Administrative Law Judge is not persuaded that the City's method is more accurate in this case.

45. Using the incremental approach advocated by People's, the reasonable costs for depreciation, property tax, and interest are $3,012, $3,840, and $5,461, respectively.

Annual Net Loss of Revenue

46. Based on the figures above, the annual net loss of revenue for People's is $203,292. When divided by the estimated annual consumption, the resulting mill rate is 13.2 mills per kWh.

Adjustment for Inflation and Present Value

47. People's maintains that the annual net loss of revenue number should be adjusted to reflect inflation over the ten-year period agreed to below, then discounted back to present value.[28] The City disagrees that this is appropriate, maintaining it is better to calculate a mill rate based on known circumstances without assuming whether this net lost revenue stream will continue into the future. The City also maintains that People's has increased its rates faster over this ten-year period than it has increased its costs.

48. This method of adjusting for inflation and discounting to present value has been used in the past when the parties have agreed to a lump-sum or partial lump-sum payment for lost revenues. The process of discounting a stream of future values to present value is intended to reflect the present payment of money owed in the future, but it is not necessary or reasonable to discount to present value when the parties have agreed that a mill rate should be established, with payments to be made in the future based on actual usage by the customer. There should, however, be some annual adjustment in the mill rate for inflation, such as use of the Consumer Price Index (CPI). If the parties can agree to use a different inflation indicator that may be more specific to this industry, they are, or course, free to do so.

Ten-Year Compensation Period

49. The parties agree that People's compensation should be expressed as a mill rate that is multiplied by actual energy usage expressed in kWh to determine compensation per kWh. RPU will make a lump sum payment for the period of August 18, 2000, through the resolution of this case, and monthly payments thereafter until August 18, 2010, for the actual electrical energy usage by the Celestica Property. There is no dispute about the use of a ten-year period.

50. The reasonable calculation of lost revenues owed to People's can be summarized as follows:

Summary of Recommended Loss of Revenue Calculation

Estimated gross revenue: 884,434

Estimate of reduced operating expense:

Purchased power	663,142
Distribution O & M	1,563
Customer Accounting	600
Customer Service	3,500
Admin & General	24

Depreciation	3,012
Property Tax	3,840
Interest	5,461
Total	681,142

Annual net loss of revenue: 203,292

Estimated annual consumption: 15,433,087

Net loss of revenue per kWh: $0.0132 per kWh
13.2 mills per kWh

Based on the foregoing Findings of Fact, the Administrative Law Judge makes the following:

CONCLUSIONS

1. The Minnesota Public Utilities Commission and the Administrative Law Judge have jurisdiction over the subject matter of this proceeding.

2. The Minnesota Public Utilities Commission gave proper notice of the hearing in this matter, has fulfilled all relevant substantive and procedural requirements, and has the authority to take the action proposed.

3. The Celestica Property was within the exclusive service territory of People's Cooperative Services, Inc., before the property was annexed by the City of Rochester. The acquisition area was receiving electric service from People's within the meaning of Minn. Stat. § 216B.44.[29] The Celestica Property has been properly annexed and is now within the municipal boundaries of the City of Rochester.

4. The appropriate compensation to People's for loss of revenue is 13.2 mills per kWh, plus an annual inflation adjustment to the mill rate, for a period of ten years, starting August 18, 2000. The parties agree that this is the only category of loss that is compensable under Minn. Stat. § 216B.44.

5. It is the intent of the Administrative Law Judge that if there is any conflict between the monetary amounts found in the Findings and the concepts found in the Findings, the concepts found will govern.

RECOMMENDED ORDER

IT IS HEREBY RECOMMENDED that the Commission require the City of Rochester to pay compensation for lost revenue to People's at a rate of 13.2 mills per kWh, with an annual adjustment to the mill rate for inflation, as stated above.

Dated: March 31, 2003

/s/ Kathleen D. Sheehy

KATHLEEN D. SHEEHY
Administrative Law Judge

MEMORANDUM

This case is unusual because it involves only one customer. Because there is only one customer, the avoided expenses can be determined without resorting to system averages or other estimation methods. The methodology used in this case to determine avoided expenses may not be appropriate, however, in cases where there are many more customers.

K.D.S.

Table 1. Summary of Loss of Revenue Calculations

		RPU	RPU Alt.	People's
Estimated gross revenue		1,043,022	810,823	1,042,965
Cost of service adjustment 17.5%	Ex. 4	173,227		
Reduction 4.13% for RPU loss of revenue payments		35,938		
Total		833,857	810,823	1,042,965
Estimate of reduced operating expense				
Purchased power		676,524		663,142
Dist. O&M		3,233		1,563
Customer Accting		600		600
Customer Service		3,500		0
Admin & General		24		24
Depreciation		12,740		3,012
Property Tax		7,762		3,840
Interest		21,779		5,461
Total		725,575	725,575	677,643
Annual net loss of revenue		108,281	85,248	365,322
Estimated annual consumption		15,433,087	15,433,087	15,433,087
Net loss of revenue per kWh		\$0.0070 per kWh 7.0 mills per kWh	\$0.0055 per kWh 5.5 mills per kWh	\$0.0237 per kWh 23.7 mills per kWh
Adjustment for inflation/present value kWh		n/a	n/a	25 mills per

[1] Minn. Stat. § 216B.44.
[2] Ex. 1 (Berg Direct) at 5.
[3] Ex. 1 (Berg Direct) at 5.
[4] Ex. 16 (Eicher Direct) at 11. The agreement to transfer these 15 parcels is the subject of a joint petition by RPU and People's pending before the Commission in Docket No. E132,299/SA-02-1662.
[5] Ex. 1 (Berg Direct) at 12; Ex. 16 (Eicher Direct) at 31.
[6] Ex. 1 (Berg Direct) at 13-14; Ex. 16 (Eicher Direct) at 31.
[7] Ex. 1 (Berg Direct) at 12; Ex. 16 (Eicher Direct) at 17.
[8] *In the Matter of the Application by the City of Rochester for an Adjustment of the Service Area Boundaries with People's Cooperative Power* Association, Docket No. E-299,132/SA-93-498, ORDER DETERMINING COMPENSATION AND DENYING MOTION TO DISMISS (Nov. 30, 1995) (the 498 Case).
[9] Ex. 18 (Eicher Surrebuttal) at Ex. DRE-4 at 2. People's Schedule C rate is 23% higher than the cost of electricity supplied to comparable retail customers by RPU. *See* Ex. 3 (Berg Surrebuttal) at 8-9.
[10] Both of the estimated gross revenue figures advocated by RPU are lower than RPU's own gross revenues from Celestica, which amounted to $847,000 during the test year. *See* Ex. 9 (Schoenmann Rebuttal) at 2.
[11] *In the Matter of the Application of the City of Olivia to Extend Its Municipal Electric Service Area into an Area Served by Renville-Sibley Cooperative Power Association*, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER SETTING COMPENSATION FOR SERVICE EXTENSION, 1986 Minn. PUC LEXIS 106 (June 27, 1986).
[12] *In the Matter of the Application by the City of Rochester for an Adjustment of its Service Area Boundaries with People's Cooperative Power Association*, OAH Docket No. 9-2500-8207-2498, FINDINGS OF FACT, CONCLUSIONS AND RECOMMENDED ORDER at 6 (May 31, 1995) (498 ALJ Report).
[13] 498 ALJ Report at 28.
[14] Ex. 1 (Berg Direct) at 29. Notably, People's expert witness, Dennis Eicher, testified that whether the rate is 15.2% or even 50% more than the cost of service, that is the rate that People's is entitled to recover. Tr. at 191-94.
[15] *In the Matter of the Application of the City of Olivia* at 12 (to prevent a rate increase for the cooperative's member-consumers as a result of the acquisition, it is appropriate for the City to pay compensation for lost revenue needed to meet continuing expenses).
[16] Tr. at 177.
[17] Ex. 1 (Berg Direct) at 13.
[18] Ex. 2 (Berg Rebuttal) at 10-12.
[19] Ex. 18 (Eicher Surrebuttal) at 17.
[20] Ex. 1 (Berg Direct) at 18.
[21] Ex. 1 (Berg Direct) at DAB-2.
[22] Tr. at 106-08.
[23] Ex. 9 (Schoenmann Rebuttal) at 2.
[24] Facility charge [2*$50*12 = $1200] plus demand charge [28,994 kW * $6.50 = $188,464] plus energy charge [15,809,595 * $0.0380 = $600,764] (including purchase power cost adjustment of 4 mills per kWh) = $790,428.
[25] Ex. 17 (Eicher Rebuttal) at 11.
[26] Ex. 1 (Berg Direct) at 32.
[27] Ex. 17 (Eicher Rebuttal) at 12-14; Ex. 18 (Eicher Surrebuttal) at 6-8.
[28] Ex. 18 (Eicher Surrebuttal) at Ex. DRE-4, p. 1.
[29] *See also In re the Annexation of a Portion of the Service Territory of People's Cooperative Power Assoc.*, 470 N.W.2d 525 (Minn. App. 1991), *rev. denied* (Minn. July 24, 1991); In *the Matter of the Complaint by Kandiyohi Cooperative Electric Power Assoc.*, 455 N.W.2d 102 (Minn. App. 1990).